

ORIGINAL

OPEN MEETING

MEMORANDUM



0000137691

RECEIVED

AZ CORP COMMISSION

DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

2012 JUL 3 AM 9 35

JUL 03 2012

TO: THE COMMISSION

FROM: Utilities Division

DATE: July 3, 2012

RE: DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - APPLICATION FOR APPROVAL TO CONTINUE ITS TARIFF FOR SINGLE PHASE TOU SERVICE (DOCKET NO. E-01703A-09-0040)

DOCKETED BY

ISM

On June 22, 2011, Duncan Valley Electric Cooperative, Inc. ("DVEC") filed summary findings and recommendations regarding its Experimental Single Phase Time-of-Use Service, Schedule SPTOU ("SPTOU") tariff (effective June 1, 2010) in compliance with Decision No. 71636. SPTOU is available to single-phase customers (both residential and nonresidential) requiring 15 kVa or less of transformer capacity and suitable voltage.

DVEC has provided information on this rate schedule in newsletters enclosed with bills, articles in DVEC's *Current* publications and in presentations at DVEC annual meetings; however, only three customers have chosen to subscribe to the TOU rate schedule. These customers have saved approximately 3% on their electricity bills compared to billings under the regular non-TOU rate schedule. DVEC indicates that it has not saved on power costs from its supplier, Arizona Electric Power Cooperative ("AEPCO"), because DVEC does not purchase power from AEPCO on a time-differentiated basis. DVEC recommends that SPTOU be made permanent and states that the time-of-use program can be further evaluated in DVEC's next rate case.

DVEC had originally filed its application for approval of SPTOU pursuant to Decision No. 69736 (July 30, 2007). Decision No. 69736 ordered electric distribution utilities to offer a "time-based rate schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility's cost of generating and purchasing electricity at the wholesale level."

Decision No. 71636 approved DVEC's SPTOU with the same time-of-use hours, days, months, and holidays as the Commission had approved for Trico Electric Cooperative ("Trico") in Decision No. 71253. Like DVEC, Trico also purchased all of its power requirements from AEPCO. A key goal of any time-of-use program is to reduce demand at critical hours. Success in this effort to mitigate demand may help utilities or their "upstream" suppliers avoid or delay expensive additions to generation or transmission capacity. Because both Trico and DVEC purchase power from AEPCO, both share a goal of controlling peaks on the AEPCO system.

Decision No. 71636 recognized this common goal in applying the Trico time-of-use design to DVEC.

Decision No. 71636 also indicated that the time-of-use rate schedule was approved as an experimental pilot, until further order of the Commission. Finding of Fact No. 20 in Decision No. 71636 states, "Staff believes that TOU rates approved in this docket should be offered ... as an *experimental*, (emphasis added) optional rate alternative. This approach gives the Applicant and Commission more flexibility to adjust rates, terms and conditions during a transition period from non-TOU rates to optional TOU rates." Decision No. 71636 ordered DVEC to docket its summary findings and recommendations for Commission consideration within 14 months of the Decision.

Currently, SPTOU has a summer on-peak period of 1 p.m. to 9 p.m. and winter on-peak periods of 6 a.m. to 10 a.m. and 6 p.m. to 10 p.m. On-peak period pricing applies to selected hours only on weekdays (Monday-Friday). On-peak pricing does not apply on weekend days (Saturday-Sunday) or on selected holidays. All weekend hours and hours for six holidays (New Year's Day, Memorial Day, Independence Day (July 4), Labor Day, Thanksgiving and Christmas) are classified as off-peak. The on-peak hours and rates of SPTOU are listed in the following table, along with the rates of DVEC's standard non-TOU rate.

Table 1
Comparison of Standard and TOU Rates

	Existing Non-TOU	Existing SPTOU
Customer charge per month	\$20.00	\$20.00
Meter charge per month		\$2.35
Standard rate per kWh (applied at all hours)	\$0.07520	
On-peak rate per kWh		\$0.10377
Off-peak rate per kWh		\$0.05843
Summer months (April-October)		
Summer on-peak hours (remaining hours off-peak)		1 p.m. to 9 p.m. Monday-Friday (excludes holidays)
Winter months (November-March)		
Winter on-peak hours (remaining hours off-peak)		6 a.m. to 10 a.m. and 6 p.m. to 10 p.m. Monday-Friday (excludes holidays)

Staff Analysis

Staff has reviewed hourly load data provided by DVEC. Staff finds that the data support shortening the on-peak time periods by excluding from the peak hour designation the 7 p.m. to 9 p.m. summer time segment, and the 9 a.m. to 10 a.m. and 9 p.m. to 10 p.m. winter time segments. Shorter on-peak periods may be more effective in reducing demand in the most critical hours, because customers are more likely to be able to sustain their curtailment of usage over an entire on-peak period when the duration of the peak period is reduced. A more attractive design may help increase subscription to the time-of-use program. Staff recommends that DVEC promote the TOU rate by discussing the option with customers establishing electric service. DVEC should continue any other promotional efforts now in place.

While DVEC states correctly that AEPCO's wholesale energy rates are not time-differentiated, a reduction in DVEC's demand at the time of AEPCO's system peak may help reduce AEPCO's generation and purchased power costs. As AEPCO's costs are reduced, DVEC's purchased power costs are reduced, and these savings would be passed on to DVEC's customers.

Table 2 shows the SPTOU rates and on-peak hours currently in effect, and Staff's proposed changes to the SPTOU rates and on-peak hours. The "Meter Charge" represents an estimate of the cost differential between non-TOU and TOU meters. A \$2.35 differential is reasonable and in-line with the differential of other utilities in the state. Peak and off-peak prices have been adjusted to eliminate any rate impact associated with the reduction in the length of the on-peak period. Staff's proposed rate design change is revenue neutral.

Table 2
Comparison of Existing and Staff-proposed SPTOU Rates and On-peak Hours

	Existing SPTOU	Staff-Proposed SPTOU
Customer charge per month	\$20.00	\$20.00
Meter charge per month	\$2.35	\$2.35
On-peak rate per kWh	\$0.10377	\$0.14100
Off-peak rate per kWh	\$0.05843	\$0.05150
Summer months (April-October)		
Summer on-peak hours (remaining hours off-peak)	1 p.m. to 9 p.m. Monday-Friday	1 p.m. to 7 p.m. Monday-Friday
Winter months (November-March)		
Winter on-peak hours (remaining hours off-peak)	6 a.m. to 10 a.m. and 6 p.m. to 10 p.m. Monday-Friday	6 a.m. to 9 a.m. and 6 p.m. to 9 p.m. Monday-Friday

Off-Peak hours include weekends and the following holidays:

New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Fair Value Considerations

Staff has analyzed DVEC's application in terms of whether there are fair value implications. In Decision No. 67433, issued on December 3, 2004, the Commission determined the fair value of DVEC's property to be \$2,972,556. According to more recent information provided by DVEC, as of 2011, the estimated value of DVEC's plant is \$2,829,689. Staff considered both of these values for the purposes of this analysis. Staff believes that the impact of proposed charges to DVEC's revenue, fair value rate base, or rate of return would be de minimis.

Summary of Recommendations

1. Staff recommends approval of the prices, time-of-use hours, days, months, and holidays for SPTOU shown as "Staff-Proposed" in Table 2.
2. Staff recommends that DVEC should promote SPTOU by discussing the option with customers establishing electric service. DVEC should continue any other promotional efforts now in place.
3. Staff recommends that DVEC should provide an annual filing by April 1 of each year, until further Commission order, summarizing subscription and savings of its SPTOU customers for the previous calendar year.
4. Staff recommends a change in the SPTOU tariff language for "Conditions of Service," item 6. The current language reads: *"The customer may choose to return to Rate Schedule Single Phase – SP at any time but will not be allowed to take service under Rate Schedule SPTOU for a period of at least 12 months."* Staff recommends this new language: *"An SPTOU customer may choose to return to Rate Schedule Single Phase – SP at any time, and this change may be made free-of charge. An SPTOU customer who opts to return to Rate Schedule Single Phase – SP will not be allowed to re-subscribe to SPTOU for a period of at least 12 months."*
5. Staff recommends that DVEC notify all customers on the existing SPTOU of any changes to the time-of-use program approved by the Commission. DVEC should submit within 15 days of the effective date of the Decision in this case the proposed notice language to Staff for review and approval. This notice should advise customers of any differences in the previously approved (current) SPTOU and the SPTOU as approved by the Commission in this proceeding, and also advise customers of their ability to change to the standard (non-time-of-use) rate at any time without penalty.
6. Staff recommends that the revised SPTOU not become effective until 15 calendar days after the notice required above is provided by DVEC to all customers presently on the previously-approved (current) SPTOU tariff.

THE COMMISSION

July 3, 2012

Page 5

7. Staff recommends that DVEC file a revised SPTOU in compliance with the Decision in this case in Docket Control within 15 days of the effective date of the Decision.
8. Staff recommends that SPTOU continue as experimental until further order of the Commission.



Steven M. Olea
Director
Utilities Division

SMO:DBE:sms\CHH

ORIGINATOR: Bentley Erdwurm

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE

3 Chairman

4 BOB STUMP

5 Commissioner

6 SANDRA D. KENNEDY

7 Commissioner

8 PAUL NEWMAN

9 Commissioner

10 BRENDIA BURNS

11 Commissioner

12
13
14 IN THE MATTER OF THE APPLICATION
15 OF DUNCAN VALLEY ELECTRIC
16 COOPERATIVE, INC., FOR APPROVAL
17 TO CONTINUE ITS TARIFF FOR SINGLE
18 PHASE TOU SERVICE

DOCKET NO. E-01703A-09-0040

DECISION NO. _____

ORDER

19
20
21
22
23
24
25
26
27
28
Open Meeting
July 18 and 19, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Duncan Valley Electric Cooperative, Inc. ("DVEC") is engaged in providing electric service within Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On June 22, 2011, DVEC filed summary findings and recommendations regarding its Experimental Single Phase Time-of-Use Service, Schedule SPTOU ("SPTOU") tariff (effective June 1, 2010) in compliance with Decision No. 71636. SPTOU is available to single-phase customers (both residential and nonresidential) requiring 15 kVa or less of transformer capacity and suitable voltage.

3. DVEC has provided information on this rate schedule in newsletters enclosed with bills, articles in DVEC's Current publications and in presentations at DVEC annual meetings; however, only three customers have chosen to subscribe to the TOU rate schedule. These

1 customers have saved approximately 3% on their electricity bills compared to billings under the
2 regular non-TOU rate schedule. DVEC indicates that it has not saved on power costs from its
3 supplier, Arizona Electric Power Cooperative ("AEPCO"), because DVEC does not purchase
4 power from AEPCO on a time-differentiated basis. DVEC recommends that SPTOU be made
5 permanent and states that the time-of-use program can be further evaluated in DVEC's next rate
6 case.

7 4. DVEC had originally filed its application for approval of SPTOU pursuant to
8 Decision No. 69736 (July 30, 2007). Decision No. 69736 ordered electric distribution utilities to
9 offer a "time-based rate schedule under which the rate charged by the electric utility varies during
10 different time periods and reflects the variance, if any, in the utility's cost of generating and
11 purchasing electricity at the wholesale level."

12 5. Decision No. 71636 approved DVEC's SPTOU with the same time-of-use hours,
13 days, months, and holidays as the Commission had approved for Trico Electric Cooperative
14 ("Trico") in Decision No. 71253. Like DVEC, Trico also purchased all of its power requirements
15 from AEPCO. A key goal of any time-of-use program is to reduce demand at critical hours.
16 Success in this effort to mitigate demand may help utilities or their "upstream" suppliers avoid or
17 delay expensive additions to generation or transmission capacity. Because both Trico and DVEC
18 purchase power from AEPCO, both share a goal of controlling peaks on the AEPCO system.
19 Decision No. 71636 recognized this common goal in applying the Trico time-of-use design to
20 DVEC.

21 6. Decision No. 71636 also indicated that the time-of-use rate schedule was approved
22 as an experimental pilot, until further order of the Commission. Finding of Fact No. 20 in
23 Decision No. 71636 states, "Staff believes that TOU rates approved in this docket should be
24 offered ... as an experimental, (emphasis added) optional rate alternative. This approach gives the
25 Applicant and Commission more flexibility to adjust rates, terms and conditions during a transition
26 period from non-TOU rates to optional TOU rates." Decision No. 71636 ordered DVEC to docket
27 its summary findings and recommendations for Commission consideration within 14 months of the
28 Decision.

7. Currently, SPTOU has a summer on-peak period of 1 p.m. to 9 p.m. and winter on-peak periods of 6 a.m. to 10 a.m. and 6 p.m. to 10 p.m. On-peak period pricing applies to selected hours only on weekdays (Monday-Friday). On-peak pricing does not apply on weekend days (Saturday-Sunday) or on selected holidays. All weekend hours and hours for six holidays (New Year's Day, Memorial Day, Independence Day (July 4), Labor Day, Thanksgiving and Christmas) are classified as off-peak. The on-peak hours and rates of SPTOU are listed in the following table, along with the rates of DVEC's standard non-TOU rate.

Table 1
Comparison of Standard and TOU Rates

	Existing Non-TOU	Existing SPTOU
Customer charge per month	\$20.00	\$20.00
Meter charge per month		\$2.35
Standard rate per kWh (applied at all hours)	\$0.07520	
On-peak rate per kWh		\$0.10377
Off-peak rate per kWh		\$0.05843
Summer months (April-October)		
Summer on-peak hours (remaining hours off-peak)		1 p.m. to 9 p.m. Monday-Friday (excludes holidays)
Winter months (November-March)		
Winter on-peak hours (remaining hours off-peak)		6 a.m. to 10 a.m. and 6 p.m. to 10 p.m. Monday-Friday (excludes holidays)

Staff Analysis

8. Staff has reviewed hourly load data provided by DVEC. Staff finds that the data support shortening the on-peak time periods by excluding from the peak hour designation the 7 p.m. to 9 p.m. summer time segment, and the 9 a.m. to 10 a.m. and 9 p.m. to 10 p.m. winter time segments. Shorter on-peak periods may be more effective in reducing demand in the most critical hours, because customers are more likely to be able to sustain their curtailment of usage over an entire on-peak period when the duration of the peak period is reduced. A more attractive design may help increase subscription to the time-of-use program. Staff has recommended that DVEC

1 promote the TOU rate by discussing the option with customers establishing electric service.
2 DVEC should continue any other promotional efforts now in place.

3 9. While DVEC states correctly that AEPCO's wholesale energy rates are not time-
4 differentiated, a reduction in DVEC's demand at the time of AEPCO's system peak may help
5 reduce AEPCO's generation and purchased power costs. As AEPCO's costs are reduced, DVEC's
6 purchased power costs are reduced, and these savings would be passed on to DVEC's customers.

7 10. Table 2 shows the SPTOU rates and on-peak hours currently in effect, and Staff's
8 proposed changes to the SPTOU rates and on-peak hours. The "Meter Charge" represents an
9 estimate of the cost differential between non-TOU and TOU meters. A \$2.35 differential is
10 reasonable and in-line with the differential of other utilities in the state. Peak and off-peak prices
11 have been adjusted to eliminate any rate impact associated with the reduction in the length of the
12 on-peak period. Staff's proposed rate design change is revenue neutral.

13 Table 2
14 Comparison of Existing and Staff-proposed SPTOU Rates and On-peak Hours

	Existing SPTOU	Staff-Proposed SPTOU
Customer charge per month	\$20.00	\$20.00
Meter charge per month	\$2.35	\$2.35
On-peak rate per kWh	\$0.10377	\$0.14100
Off-peak rate per kWh	\$0.05843	\$0.05150
Summer months (April-October)		
Summer on-peak hours (remaining hours off-peak)	1 p.m. to 9 p.m. Monday-Friday	1 p.m. to 7 p.m. Monday-Friday
Winter months (November-March)		
Winter on-peak hours (remaining hours off-peak)	6 a.m. to 10 a.m. and 6 p.m. to 10 p.m. Monday-Friday	6 a.m. to 9 a.m. and 6 p.m. to 9 p.m. Monday-Friday

18 Off-Peak hours include weekends and the following holidays:

19 New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day

20 11. Staff has analyzed DVEC's application in terms of whether there are fair value
21 implications. In Decision No. 67433, issued on December 3, 2004, the Commission determined
22 the fair value of DVEC's property to be \$2,972,556. According to more recent information
23 provided by DVEC, as of 2011, the estimated value of DVEC's plant is \$2,829,689. Staff
24
25
26
27
28

1 considered both of these values for the purposes of this analysis. Staff believes that the impact of
2 proposed charges to DVEC's revenue, fair value rate base, or rate of return would be de minimis.

3 Summary of Recommendations

4 12. Staff has recommended approval of the prices, time-of-use hours, days, months, and
5 holidays for SPTOU shown as "Staff-Proposed" in Table 2.

6 13. Staff has recommended that DVEC promote SPTOU by discussing the option with
7 customers establishing electric service. DVEC should continue any other promotional efforts now
8 in place.

9 14. Staff has recommended that DVEC provide an annual filing by April 1 of each
10 year, until further Commission order, summarizing subscription and savings of its SPTOU
11 customers for the previous calendar year.

12 15. Staff has recommended that language in item 6 under "Conditions of Service" on
13 the SPTOU tariff be changed from: *"The customer may choose to return to Rate Schedule Single*
14 *Phase - SP at any time but will not be allowed to take service under Rate Schedule SPTOU for a*
15 *period of at least 12 months."* to read as: *"An SPTOU customer may choose to return to Rate*
16 *Schedule Single Phase - SP at any time, and this change may be made free-of charge. An SPTOU*
17 *customer who opts to return to Rate Schedule Single Phase - SP will not be allowed to re-*
18 *subscribe to SPTOU for a period of at least 12 months."*

19 16. Staff has recommended that DVEC notify all customers on the existing SPTOU of
20 any changes to the time-of-use program approved by the Commission. DVEC should submit
21 within 15 days of the effective date of the Decision in this case the proposed notice language to
22 Staff for review and approval. This notice should advise customers of any differences in the
23 previously approved (current) SPTOU and the SPTOU as approved by the Commission in this
24 proceeding, and also advise customers of their ability to change to the standard (non-time-of-use)
25 rate at any time without penalty.

26 17. Staff has recommended that the revised SPTOU not become effective until 15
27 calendar days after the notice required above is provided by DVEC to all customers presently on
28 the previously-approved (current) SPTOU tariff.

18. Staff has recommended that DVEC file a revised SPTOU in compliance with the Decision in this case in Docket Control within 15 days of the effective date of the Decision.

19. Staff has recommended that SPTOU continue as experimental until further order of the Commission.

CONCLUSIONS OF LAW

1. Duncan Valley Electric Cooperative, Inc. is a public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

2. The Commission has jurisdiction over Duncan Valley Electric Cooperative, Inc. and the subject matter of this Application.

3. Approval of Staff's recommended changes to the experimental Single-Phase Time of Use service does not constitute a rate increase as contemplated by A.R.S. Section 40-250.

4. The Commission, having reviewed the Application and Staff's Memorandum dated July 3, 2012, concludes that it is in the public interest to approve the continuation of the Single-Phase Time of Use service tariff SPTOU, as discussed herein.

ORDER

IT IS THEREFORE ORDERED the prices, time-of-use hours, days, months, and holidays for SPTOU shown as "Staff-Proposed" in Table 2 are approved.

IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. shall promote Single-Phase Time of Use tariff by discussing the option with customers establishing electric service. Duncan Valley Electric Cooperative, Inc. shall continue any other promotional efforts now in place.

IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. shall provide an annual filing by April 1 of each year, until further Commission order, summarizing subscription and savings of its SPTOU customers for the previous calendar year.

IT IS FURTHER ORDERED that language in item 6 under "Conditions of Service" on the SPTOU tariff be changed from: *"The customer may choose to return to Rate Schedule Single Phase – SP at any time but will not be allowed to take service under Rate Schedule SPTOU for a period of at least 12 months."* to read as: *"An SPTOU customer may choose to return to Rate*

1 *Schedule Single Phase – SP at any time, and this change shall be made free-of charge. An SPTOU*
2 *customer who opts to return to Rate Schedule Single Phase – SP will not be allowed to re-*
3 *subscribe to SPTOU for a period of at least 12 months.”*

4 IT IS FURTHER ORDERED that within 30 days of the affective date of the decision,
5 Duncan Valley Electric Cooperative, Inc. shall notify all customers, in a form acceptable to Staff,
6 on the existing SPTOU tariff of any changes to the time-of-use program approved by the
7 Commission. This notice shall advise customers of any differences in the previously approved
8 (current) SPTOU tariff and the SPTOU tariff as approved by the Commission in this proceeding,
9 and also shall advise customers of their ability to change to the standard (non-time-of-use) rate at
10 any time and without penalty.

11 IT IS FURTHER ORDERED that the revised SPTOU tariff shall not become effective
12 until 15 calendar days after the notice required above is provided by Duncan Valley Electric
13 Cooperative, Inc. to all customers presently on the previously-approved (current) SPTOU tariff.

14 ...

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

27 ...

28

1 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. shall file a
2 revised SPTOU in compliance with the Decision in this case in Docket Control within 15 days of
3 the effective date of the Decision

4 IT IS FURTHER ORDERED that the SPTOU tariff shall continue as experimental until
5 further order of the Commission.

6 IT IS FURTHER ORDERED that this Order shall become effective immediately.

7
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

9
10 CHAIRMAN

COMMISSIONER

11
12
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14
15 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
16 Executive Director of the Arizona Corporation Commission,
17 have hereunto, set my hand and caused the official seal of
18 this Commission to be affixed at the Capitol, in the City of
19 Phoenix, this _____ day of _____, 2012

20 _____
21 ERNEST G. JOHNSON
22 EXECUTIVE DIRECTOR

23 DISSENT: _____

24 DISSENT: _____

25 SMO: DBE:sms/CHH
26
27
28

Decision No. _____

1 SERVICE LIST FOR: Duncan Valley Electric Cooperative
2 DOCKET NO. E-01703A-09-0040

3 John V. Wallace
4 Grand Canyon State Electric Cooperative Association, Inc.
5 2210 S. Priest Drive
6 Tempe, AZ 85282

7 Mike Pearce
8 Duncan Valley Electric Cooperative, Inc.
9 P.O. Box 440
10 Duncan, AZ 85534

11 Mr. Steven M. Olea
12 Director, Utilities Division
13 Arizona Corporation Commission
14 1200 West Washington Street
15 Phoenix, Arizona 85007

16 Ms. Janice M. Alward
17 Chief Counsel, Legal Division
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007
21
22
23
24
25
26
27
28